

26087: Labor and Finance - Introductory Lecture

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The Lecturer



- **Distinguished Visiting Professor** at Hanken 2024-2026
- MSc and PhD from Hanken (2001-2008)
- From Vasa, live in Stockholm, work at IFN
- I bring Nordic registry datasets to the research frontier in **labor and finance**
- Excited to develop and give this course at Hanken!

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Assessment and Evaluation

In-class Participation (20%)

Student Paper Presentation (20%)

Course Assignment (60%)

Referee Reports (for PhD students)

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About the Course

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The Course

- **New course at Hanken.** First(?) course world-wide in Labor and Finance.
- Aims to give a **selected overview** of the field of **Labor and Finance** by focusing on research that:
 - Represents the field
 - Useful for your careers
- **Labor and Finance:**
 - A sub-field in **finance** that has grown a lot during the last 15-20 years
 - Focuses on the human capital implications of corporate policies, asset pricing and household finance
 - Human capital refers to the skills, knowledge, and experience possessed by workers that contribute to firm productivity.
 - Blends research from finance, **labor economics**, personnel economics, organizational economics, and entrepreneurship

The Course

- In this course we focus on **labor and corporate finance**:
 - How do corporate decisions affect human capital allocation inside firms?
 - How do they affect worker careers?
 - How do market booms and busts affect human capital and worker careers?
 - How does government policies impact human capital inside firms?
- **We will not cover:**
 - Entrepreneurial Finance
 - Household Finance and Labor
 - Asset Pricing and Labor
 - Gender and Finance
 - Education and Finance
 - Inequality and Finance

The Course

- **Guiding principles:**
 - Relevant for both **economics** and **finance** students
 - PhD Course, but possible for advanced MSc students to attend
 - Possible for non-Helsinki students to attend
- **Design choices:**
 - Broad overview of the research field incorporating the basics
 - Narrow depth on a few papers (presentations)
 - Reading list is focused on **research frontier and surveys** rather than on **classics**
 - In-class teaching concentrated to one week
 - Individual guidance and choice of specialization (paper presentation, course assignment)

Formal Objectives

- **Course objectives:** Introduce topics at the intersection of labor economics and corporate finance through five modules
 1. Mergers and acquisitions
 2. Corporate ownership forms
 3. Firm investments in new technologies
 4. Capital structure choices and bankruptcy
 5. Financial market booms and busts
- **Learning objectives:**
 - Analyze corporate policies and ownership's impact on human capital and careers
 - Participate in policy discussions related to corporate policies and labor
 - Conduct independent research in labor and finance

Why Take the Course?

1. As we will see, corporate policies and events have long-run effects on careers of workers. **Your future careers.**
2. Many of you will end up in **managerial positions** or will be **analyzing firms** or **influencing government policy** in human capital intensive industries where **management of human capital is central for performance.**
3. You will learn **analytical skills** and **how to conduct research** in Labor and Finance through reading academic articles. This will **help with your thesis.**

About the Course

Structure

Structure of the Course

- **Lectures:** 5 x 90 min (+ intro lecture)
- **Paper presentations:** 5 x 90 min
- **Non-scheduled work:** 114 hours (reading list, presentation preparations, course assignment)
- **Three elements:**
 1. Introductory lecture + sign-up for paper presentation
 2. Lecture week + Paper Presentation + Course Assignment
 3. Submission of Course Assignment (and referee reports)

Structure of the Course

	Date	Time	Location	Type
Introduction (mandatory)	04.11.2024	12.30 - 14.00	Teams (online)	Lecture
Mergers and Acquisitions	18.11.2024	12.30 - 14.00	A403	Lecture
	18.11.2024	14.15 - 15.45	A403	Presentations
Corporate Ownership	19.11.2024	12.30 - 14.00	A403	Lecture
	19.11.2024	14.15 - 15.45	A403	Presentations
Firms and New Technologies	20.11.2024	08.30-10.00	A307	Lecture
	20.11.2024	10.15-11.45	A307	Presentations
Capital Structure and Bankruptcy	21.11.2024	08.30-10.00	A308	Lecture
	21.11.2024	10.15-11.45	A308	Presentations
Booms and Busts	22.11.2024	08.30-10.00	A307	Lecture
	22.11.2024	10.15-11.45	A307	Presentations

Important Deadlines and Material

- **Key deadlines:**
 1. **08.11**: Sign up for student paper presentation
 2. **15.11**: Presentation submission deadline
 3. **18.11-22.11**: Lectures and presentations
 4. **25.11**: Team and topic deadline for Course Assignment
 5. **13.12**: Course Assignment deadline (and DL for PhD student reports)
- All course material will be on **Moodle**
- If you can't access the published version of a paper, the latest working paper works equally well.

About the Course

The Modules

Modules Overview

- **Modules in the course:**

1. Mergers and Acquisitions
2. Corporate Ownership Forms
3. Firm Investments in New Technologies
4. Capital Structure and Bankruptcy
5. Financial Market Booms and Busts

- The modules are **interconnected:**

- MnAs often involve a change in corporate ownership form
- Different corporate owners have different incentives to invest in new technologies
- These investments need to be financed somehow
- Financial market booms and busts affects financing capabilities of firms, leading to waves in MnAs, ownership forms, investments in technologies, and bankruptcies

Mergers and Acquisitions

- An Overview of Mergers and Acquisitions
 - What are they, why do they take place, how common are they?
- Human Capital Motivations for M&As
 - Ending the quiet life, breach of implicit contracts, expanding internal labor markets, monopsony, and acquirhires
- How do M&As Affect Human Capital?
 - Labor reallocation inside firms and career impact on workers
- M&As and Government Policy
 - Employment protection legislations, manager-worker alliances, and anti-trust regulations

Corporate Ownership Forms

- An Overview of Corporate Ownership
 - Which forms we will cover, how common are they, why it matters
- Family Firms
 - What makes them special, the family firm wage gap, and wage insurance
- State-Owned Enterprises
 - Soft budget constraints, employment objectives and privatizations
- Listed Firms
 - Dispersed ownership and initial public offerings

Corporate Ownership Forms

- Private Equity Buyouts
 - The PE business model, impact on workers and careers
- Government Ownership Policy
 - Taxation, privatization policy, IPO regulations, and corporate governance

Firm Investments in New Technologies

- An Overview of Firms and Technological Change
 - Technology in the labor market, historical context, foundational theories
- Firm Level Drivers of Technology Adoption
 - Competitive pressure, access, regulations, tax policy, ownership changes
- Effects on Human Capital of Technology Adoption
 - Firm level employment mix and career impacts
- Technology and Government Policy
 - R&D grants, tax incentives, education, and labor market regulations

Capital Structure and Bankruptcy

- An Introduction to Capital Structure and Bankruptcy
 - Capital structure theories, bankruptcy and restructuring
- Capital Structure, Bankruptcy and Human Capital
 - Ability to quit, costs from bankruptcy, strategic debt, key talent retention
- Risk Sharing Within the Firm
 - Wage and employment risk
- Government Policy
 - Employment protection legislation, minimum wages, etc.

Financial Market Booms and Busts

- An Introduction to Booms and Busts
 - Economic cycles, human capital in economic cycles
- Human Capital During Booms
 - Hiring difficulties, sectoral allocations of talent
- Human Capital During Busts
 - Financial constraints, layoffs, culling the work force
- Booms, Busts, and Careers
 - Graduating in a recession, economic cycles and careers
- Booms, Busts, and Policy
 - Employment protection legislation, government handouts

Assessment and Evaluation

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In-class Participation (20%)

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- **Lecture participation (20%)**
 - Participation in 10 lectures (5 lecture + 5 presentations) = 20% of grade
- **Don't come to class sick!**
 - E-mail me instead for tasks to compensate for absence

Assessment and Evaluation

Student Paper Presentation (20%)

Student Paper Presentation (20%) - Overview

1. **Objective:** paper presentations for more in-depth analysis of papers
2. **Do this:**
 - Choose a paper from the paper presentation section on Moodle
 - Email me your name and the paper you have chosen (DL 8.11, first come first serve)
 - Wait for confirmation if the paper is available; if not, choose another
 - Prepare a 20-minute presentation of the paper following the pre-specified structure.
 - Submit your presentation to through Moodle **before 15.11.2024**
 - Present the paper to class and be ready to answer questions during the 10-minute discussion afterwards

Student Paper Presentation (20%) - Structure

- **Presentation should contain the following slides:**
 1. **Motivation:** broadly motivates the paper
 2. **Question:** directly states the research question
 3. **This paper:** motivate what the paper does and why
 4. **Contribution:** explain how it advances the literature, and why that is important
 5. **Data:** what is the data used?
 6. **Empirical approach:** how is the data analyzed?
 7. **Results:** show the results, use figures where possible
 8. **Takeaways:** what do we learn from this paper?
 9. **Improvements:** what could the paper have done better?

Student Paper Presentation (20%) - Evaluation

- **How I will evaluate the presentation:**

1. Understanding of the paper (50%)
2. Critical analysis (25%)
3. Presentation skills (25%)

- **Tips:**

- **Slides:** Jesse Shapiro at https://scholar.harvard.edu/files/shapiro/files/applied_micro_slides.pdf

- **Presentation:** Can be used as a coach when uploading presentation + recording of your talk

- Submit your presentation to through Moodle **before 15.11.2024.**

Assessment and Evaluation

Course Assignment (60%)

Course Assignment (60%) - Overview

- **Task:** Write a term paper ("short research-based paper")
- **Topic:** Can be chosen freely, but the paper must be about **labor and finance** and use economic arguments:
 - Pick a policy proposal and evaluate its pros and cons (policy sections from the lectures)
 - Make a policy proposal/claim of your own and defend it
 - Ask a question and answer it
 - Challenge a prevailing view and argue why it does not hold
 - Analyze data and interpret it persuasively
 - Write down a model and use it to highlight an economic mechanism at work
- **Protip:** Use this as an opportunity to work on your thesis!

Course Assignment (60%) - Details

- **Details:**
 - Work alone or with a partner (max team size is 2)
 - Max 10 A4 pages as one PDF, including title page and reference list (include names and student numbers on title page)
 - Use graphical/mathematical/econometric tools to shine
 - You **MUST** use in-paragraph citations (i.e don't fire off a long paragraph and then have a parenthesis with 10 citations at the end)
 - Remember to cite academic papers and **do not plagiarize**
- Hankens official **Generative AI policy** applies!
 - Do NOT copy paste text directly
 - Full disclosure of what you used Generative AI for in Appendix
 - Non-compliance will be taken as cheating (so document use)

Course Assignment (60%) - Steps to Follow

1. Develop a set of **potential ideas** (3-5 questions, claims, etc.), and evaluate how they align with the course and how you could address them. Look for relevant academic literature.
2. Write down the idea and **pitch it to me via email with team member names** (joacim.tag@hanken.fi) **before 25.11**. Wait for approval.
3. Take a closer look at the literature, develop the idea further, and **start applying economic analysis** to your topic. Discuss with your partner what you want to say and do.
4. Design a structure for your report and begin collecting findings, observations, arguments, etc. **Start the writing process early**.
5. Write and finalize the report and complete the analysis before the deadline on **13.12** (and submit through Moodle).

Course Assignment (60%) - Evaluation

- **How I will evaluate the course assignment:**

1. Own analysis (25%)
2. Scientific evidence (25%)
3. Evidence-based conclusions (25%)
4. Presentation, flow and writing (25%)

- **Notes:**

- It is perfectly fine to develop an **analysis pre-plan** as a course assignment. I.e, you essentially write a first version of a paper (and get feedback on it) without including the results section
- It's fine to propose something in labor and finance **NOT** covered in the course, i.e. Entrepreneurial Finance, Household Finance and Labor, Asset Pricing and Labor, Gender and Finance, Education and Finance, or Inequality and Finance

Assessment and Evaluation

Referee Reports (for PhD students)

Referee reports (for PhD students)

- **Additional requirement for PhD students:**
 - 3 referee reports of 1-2 pages each (DL 13.12.2024)
- You can freely choose **any working paper** in Labor and Finance (i.e. the paper cannot be accepted for publication)
- You **MUST** follow the guidelines in:

Berk, Jonathan B., Campbell R. Harvey, and David Hirshleifer. 2017. "How to Write an Effective Referee Report and Improve the Scientific Review Process." *Journal of Economic Perspectives*, 31 (1): 231–44.

Report Structure

1. Importance of the idea

- Brief summary paragraph summarizing and discussion of importance.

2. Problems that make the paper unpublishable

- If recommending Rejection: (crucial problems not fixable)
 - Far below the bar? If yes, a one-page report is acceptable.
 - Scientific justification provided. (Not: “I just don’t believe the proof/result.”)
- If recommending a Revise and Resubmit: (crucial problems might be corrected in a revision)
 - Clear, scientific explanation of why the problem is critical.
 - Suggested changes/robustness checks (avoiding “make-work” for authors).
 - No hostage taking: if the paper is already publishable, make sure other possible improvements are in the suggestions section.

3. Suggestions

- Problems with the paper that do not make it unpublishable—optional for authors

Other Points

- Scientific stance taken—focus on substance
- Avoid speculations about ill-intent of authors
- Avoid a scolding or insulting tone
- Make sure all comments in the report are numbered, separately numbering in each section
- No long discursive paragraphs
- Verify that the report is consistent with the recommendation to the editor

Tips for PhD Students

Economics & Finance

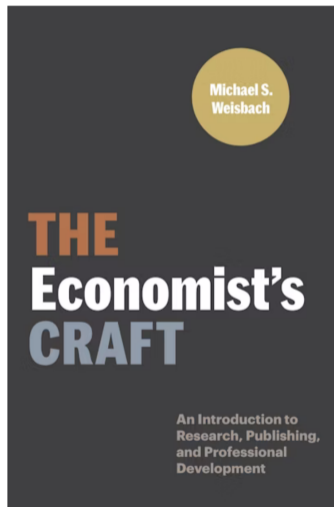
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Questions and Feedback



- Send questions to `joacim.tag@hanken.fi`
- Remember to fill out feedback form at the end of the course!